

**STATE OF MONTANA
DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA**

**BASIC FINANCIAL
STATEMENTS AND SUPPLEMENTARY
INFORMATION**

FISCAL YEARS ENDED JUNE 30, 2005 AND 2006

CONDUCTED UNDER CONTRACT BY
C H M S, P.C.
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**DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
JUNE 30, 2005 AND 2006**

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**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
JUNE 30, 2005 AND 2006**

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

November 2006

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of Dawson Community College for the two fiscal years ended June 30, 2006.

The audit was conducted by CHMS, P.C., under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a light blue rectangular background.

Scott A. Seacat
Legislative Auditor

06C-05

**DAWSON COMMUNITY COLLEGE
GLENDALE, MONTANA**

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

Montana Board of Regents of Higher Education

Lynn Morrison-Hamilton	Chair
Stephen M. Barrett	Vice-Chair
Clayton Christian	Regent
Mark J. Semmens	Regent
Lila Taylor	Regent
Dr. Janine Pease	Regent
Heather O'Loughlin	Student Regent
Brian Schweitzer	Governor*
Linda McCulloch	Superintendent of Public Instruction*

Office of the Commissioner of Higher Education

Sheila Sterns	Commissioner of Higher Education
Roger Barber	Deputy Commission for Academic And Student Affairs
Mick Robinson	Associate Commissioner for Fiscal Affairs
Cathy Swift	Chief Legal Counsel

Dawson Community College Board of Trustees

Tom Ree	Chairperson
Kay McDonough-Jensen	Vice-Chairperson
Mike Ruddy	Trustee
Alan Sevier	Trustee
Katherine Lee	Trustee
Gerry Anderson	Trustee
Sandy Eickmann	Trustee

Administration

Dr. Jim Cargill	President
Justin Cross	Dean of Administrative Services
Diane Dohrmann	Dean of Student Services
Jackie Schultz	Dean of Instructional Services

* Ex officio member of the Board of Regents of Higher Education

**DAWSON COMMUNITY COLLEGE
YEARS ENDED JUNE 30, 2005 AND 2006**

RECOMMENDATIONS

FINDING #06-01 – Capitalization Policy

The College does not follow a formal capitalization policy for fixed asset acquisitions. Formalizing the policy will create more consistent accounting treatment for purchases of fixed assets.

Recommendation

We suggest that the College review and update its fixed assets capitalization policy to more effectively control and account for the College's property and equipment. To accomplish this goal, we suggest the following:

- a. Revise the minimum dollar amount for capitalization within the various property accounts.
- b. Prepare written guidelines for proper account classification of all routine fixed asset additions.
- c. Formalize the policy to differentiate between maintenance and repair items and long-term improvements.
- d. Review the detail listing of capitalized fixed assets with regard to the updated capitalization policy, and remove all previously capitalized assets not meeting the capitalization threshold from the detail asset listing and the capital asset accounts in the College general ledger.

PRIOR YEARS' RECOMMENDATIONS

A summary of the recommendations from fiscal years June 30, 2003 and 2004 is as follows:

<u>Finding</u>	<u>Status</u>
Finding #04-01 – Cash Reconciliations	Implemented
Finding #04-02 – Capitalization Policy	Not Implemented
Finding #04-03 – Operating Budget	Implemented

**DAWSON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEARS ENDING JUNE 30, 2005 AND 2006**

Dawson Community College (College) is a comprehensive, open access, publicly supported institution of higher education dedicated to serving the needs of those who seek enrichment through educational opportunities. The College exists to address individual needs, interests, and abilities while enhancing the economic, social and cultural attributes of the diverse communities it serves. The College accomplishes this purpose by providing high quality, affordable, flexible programs and services which are academically, and geographically accessible. This purpose requires a strong commitment to the teaching and learning process by a service driven philosophy in a supportive environment.

Reading the Annual Financial Report

Accounting Standards

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of the College's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the College's financial condition and result of operations for the fiscal years ending June 30, 2005 and 2006. Comparative numbers, where presented, are for the fiscal years ending June 30, 2005 and 2006. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. College management is responsible for all of the financial information presented, including this discussion and analysis.

In June 1999, GASB issued Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities—an Amendment of GASB Statement 43, which applied the new reporting standards to public institutions. These new reporting standards are effective for fiscal year 2003 and as such comparative data will only include fiscal years 2005 and 2006.

These financial reporting standards significantly changed the appearance and nature of the required financial information compared to prior standards. The major changes were:

(1) financial statement are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, whereas previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by these accounting pronouncements, the basic financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the College's activities.

How the Financial Statements Relate to Each Other

The basic financial statements referred to above are presented using the accrual basis of accounting. The accrual basis of accounting is a method of accounting which attempts to match revenues with expenses by recognizing revenue when a service is rendered and expense when the liability is incurred irrespective of the receipt or disbursement of cash. For example, revenue would be recognized when a student registers for a class not when the student ultimately pays for that class. Amounts that remain unpaid are recorded in accounts receivable. When final payment is received the balance in accounts receivable associated with the individual student will be zero.

The basic financial statements referred to above are interrelated and should be viewed in their entirety. However, each of the financial statements is unique and presents the financial information according to the purpose of the individual statement. The fundamental relationships between the statements are described below. The Statement of Net Assets presents a snap shot of the financial condition of the College on June 30. The Statement of Revenues, Expenses, and Changes in Net Assets present the results of activities for the College throughout the fiscal year. The Statement of Cash Flows summarizes activities that generate and consume cash (illustrating net cash inflow and outflow activities) during the fiscal year.

Statement of Net Assets

The Statement of Net Assets presents the College's assets, liabilities, and net assets as of the fiscal year end. The purpose of this statement is to present to the financial statement readers a snapshot of the College's financial position at June 30, 2005 and 2006. The data presented in the Statement of Net Assets aids in determining the assets available to continue the College's operations. It also allows readers to determine how much the College owes to vendors and creditors. Finally, the Statement on Net Assets provides a picture of net assets and their availability for expenditure by the College. Sustained increases in net assets are one indicator of an organization's financial health.

Net assets are divided into three major categories. The first "Invested Capital Assets, Net of Related Debt," represents the College's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of

Invested Capital Assets, Net of Related Debt. The second category is “Restricted Net Assets,” which is divided into two categories, Expendable and Nonexpendable. Expendable restricted assets include resources the College is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. Nonexpendable Restricted Nets Assets consist of endowments and similar type funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to the principal. Unrestricted Net Assets represent resources used for the College’s general operations. They may be used at the discretion of the College’s Board of Trustees to meet current expenses for any lawful purpose in support of educational and general and auxiliary activities.

The following is a summary of the Statement of Net Assets for each fiscal year:

Condensed Statement of Net Assets

	At 6/30/06	At 6/30/05
Total Current Assets	\$ 3,633,327	\$ 5,995,622
Total Non-Current Assets	\$ 11,838,976	\$ 7,985,503
TOTAL ASSETS	\$ 15,472,303	\$ 13,981,125
Total Current Liabilities	\$ 793,081	\$ 595,468
Total Non-Current Liabilities	\$ 6,311,624	\$ 5,845,617
TOTAL LIABILITIES	\$ 7,104,705	\$ 6,441,085
Invested in capital, net of related debt	\$ 3,778,094	\$ 627,816
Restricted-expendable	\$ 1,938,152	\$ 1,779,410
Unrestricted	\$ 2,651,352	\$ 5,132,814
TOTAL NET ASSETS	\$ 8,367,598	\$ 7,540,040

Information significant to reading the Statement of Net Assets:

- The Net Assets Invested in Capital, Net of Related Debt is primarily made up of the value of buildings and land held by the College.
- Restricted-expendable Net Assets are held primarily in the grant and debt service activities of the College.
- Unrestricted Net Assets is made up of operating activities, auxiliary activities, and also numerous designated activities which include funds designated as follows:
 1. **Student Activity Fee** – Any change in the Student Activity fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. The Student Activity Fee is allocated and deposited into five separate agency accounts; 46%

to Associated Student Body, 25.75% to Athletics, 12.75% to Publications, 12.75% to Institutional, and 2.75% to Theatre. The Student government administers the Associated Student Body account, and the Board of Trustees or their designee administers the remaining accounts.

2. **Library Fees** – Any change in the Library fee must be approved by the Board of Trustees, and the Board of Regents. Library fees are intended to augment, not replace, basic operating expenses of the library and may be used for:
 - a. Consumable supplies
 - b. Periodicals and holdings
 - c. Equipment and Improvements

The annual amount budgeted from Library fees is based on anticipated revenues generated from projected annual enrollment.

Library fees are not intended for continuing personnel costs

3. **Student Building Fees** – Any change in the Student Building fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. Student Building Fees are collected specifically for the purpose of purchasing land, new construction, and making improvements to existing facilities. Use of Student Building fees requires the approval of the Associated Student Body, the Board of Trustees, and the Board of Regents.
4. **Computer Fees** – Any change in the Computer fee must be approved by the Board of Trustees, and the Board of Regents. Computer Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the College's IT/AS400 system. This system is primarily used for student records and the payroll and general accounting record keeping.
5. **Building Repairs and Maintenance Fees** – Any change in the Building Repairs and Maintenance Fee must be approved by the Board of Trustees, and the Board of Regents. Building Repairs and Maintenance Fees are for major repairs or maintenance of College owned building and grounds. This fee would typically be used for major renovations and repairs.
6. **Technology Fees** – Any change in the Technology fee must be approved by the Board of Trustees, and the Board of Regents. Technology Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the educational process.

Statement of Revenues, Expenses, and Changes in Net Assets

The operating and nonoperating activities creating the changes in the College's total net assets are presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains and losses from investment and capital assets activities.

Generally, operating revenues are received for providing goods and services to students and other constituencies of the College. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the College's mission.

Nonoperating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the College's operating expenses. Therefore, the College, like most public institutions, will expect to show an operating loss.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	For Fiscal Year Ending 6/30/06	For Fiscal Year Ending 6/30/05
Operating Revenues	\$ 3,830,254	\$ 3,566,733
Operating Expenses	\$ 6,443,195	\$ 6,165,883
Operating Loss	\$ (2,612,941)	\$ (2,599,150)
Net Nonoperating Revenues/(Expenses)	\$ 3,435,311	\$ 2,636,747
Income before other revenues, expenses, gains or losses	\$ 822,370	\$ 37,597
Other Expenses	\$ -	\$ -
Change in Net Assets	\$ 822,370	\$ 37,597
Net Assets - Beginning of Year	\$ 7,540,040	\$ 7,502,443
Net assets - End of Year	\$ 8,367,598	\$ 7,540,040

Information regarding specific revenue and expense items is:

- Tuition and fees: Tuition and select fees were increased for fiscal year 2005. All tuition rates were increased nine percent over the previous fiscal year. The Student Building Fee was increased from \$7.00 per credit to \$14.00 per credit. The Library/Media Fee was increased from \$2.00 per credit to \$3.00 per credit. A contributing factor to the complexion of tuition and fees is the increase in out-of-district students in the Farm/Ranch Business Management program. The College enjoyed record enrollment for fiscal years 2005 and 2006.
- Salaries: The increase in the salaries category resulted from annual pay raises and the hiring instructors and staff.
- Other Operating Revenues (Expenses): This category is comprised of fund transfers. The primary reason for the fund transfers is to provide the necessary

funding for the Facility Expansion project. The budget for Facility Expansion project included fund transfer from the Student Building fund, the Library Media fund, and the Building Repairs and Maintenance fund.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the College's cash activity during the year. Operating cash flows will always be different from the operation loss on the Statement of Revenues, Expenses, and Changes in Net Assets. This difference occurs because the Statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting and includes non-cash items such as depreciation expense, and the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows assists readers in assessing the ability of an institution to generate future cash flows necessary to meet obligations and evaluate its potential for additional financing.

The statement is divided into five sections. The first section shows the net cash provided (used) by the College's operating activities. The next section reflects the cash flows from noncapital financing activities and includes state appropriations for the College's educational and general programs and financial aid. This section reflects the cash received and spent for items other than operating, investing, and capital financing purposes. Cash flows from capital financing activities present cash used for the acquisition and construction of capital and related items. The next sections shows cash flows related to purchases, proceeds, and interest received from investing activities. The final section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Statement of Cash Flows

	For Fiscal Year Ended 6/30/2006	For Fiscal Year Ended 6/30/2005
Cash Provided (Used) by:		
Operating Activities	\$ (2,294,435)	\$ (2,323,261)
Noncapital Financing Activities	\$ 3,369,759	\$ 2,813,140
Capital and Related Financing Activities	\$ (3,560,223)	\$ 1,959,170
Investing Activities	\$ 279,405	\$ 218,278
Net Increase (Decrease) in Cash	\$ (2,205,494)	\$ 2,667,327
Cash and Cash Equivalents, Beginning of Year	\$ 6,898,044	\$ 4,230,717
Cash and Cash Equivalents, End of Year	\$ 4,692,550	\$ 6,898,044

Pending Economic and Financial Issues

In the spring of 2002, the Board of Trustees appointed a fourteen-member ad hoc committee, the Facilities Expansion Committee, to help identify facility needs at the College. After approximately six months of study and analysis, the committee submitted its recommendations to the Board of Trustees. The recommendations cited the need for a new physical education center, a new performing arts center, and the construction of a joint library/learning center complex. The only major change to the committee's recommendations was the size of the auditorium in the proposed performing arts center. The Board chose a 300-seat rather than a 500-seat facility. The Board adopted the committee's recommendations, with the above cited difference, at its meeting in August, 2002.

The original estimated cost to construct these three facilities was \$6.3 million. As a major means to acquire the funds needed for this project (the largest ever undertaken by College), the Board authorized the pursuit of a four million dollar general obligation bond campaign. The committee believed that \$4 million was the maximum amount that the taxpayers would approve. From the end of August through October of 2002, the College engaged in a major marketing and publicity campaign to get the voters of the community college district to pass a four million dollar bond issue. On November 2, 2002, the voters approved the bond issue on a vote of 1882 for and 1562 against.

November 13, 2003 was the initial bid opening date for the new gymnasium and performing arts centers. The lowest base bid was \$5,436,000 on the initial estimate of \$4,600,000. The Board of Trustees rejected the bids based on the large disparity between estimates and the lowest actual bid.

The second round of bids was opened for consideration on June 15, 2004. The low bid of \$5,092,000 was submitted by Fisher Construction. This bid was approximately \$460,000 over the revised estimate. The bids were taken under advisement.

The review committee was directed to reevaluate the project and submit recommendations that would bring the cost of the project in line with the revised budget. On June 28, 2004 the Board reviewed and approved some of the items that were value engineered out of the initial bid process. The revised amount of the bid for the gym/performing arts center was \$4,855,102. The Board also accepted the recommendations for deferring equipment and landscaping. It was noted that the current budget for the library/learning center was based on a smaller sized project than was being considered by the Board. The larger sized project would increase the overall budget by approximately \$300,000. With the final revisions the project budget of \$6,303,000 was deemed to be in balance. The Board then approved the revised bid and let the contract.

Bids for the library/learning center portion of the expansion project were received on February 28, 2006. The bids were based on the larger size option. The low bid, submitted by Richard Schwartz, Inc., exceeded the budget by approximately \$75,000. The bids were taken under advisement.

The contracts for the library/learning center were signed on March 20, 2006. The budget for this portion of the expansion project was set at \$900,323. Additionally, the Board approved restoring approximately \$227,000 to the total budget for upper bleachers in the gymnasium and stage lighting and curtains in the performing arts center. As of June 30, 2006, the total budget for the expansion project was \$6,980,891.

On July 26, 2004, with the cost of the major portion of the project set by bid, the Board authorized the sale of the \$4,000,000 general obligation school building bonds (bonds). The sale of the bonds occurred on August 18, 2004. The interest rate on the bonds was projected to be 5%. At the date of sale the true interest cost on the bonds was bid at 3.99969%. This favorable rate will save local taxpayers approximately \$800,000 in interest cost over the life of the bonds.

In March of 2004 the application for a \$500,000 INTERCAP loan was submitted for consideration. On June 15, 2004 the Montana Board of Investments approved the College's request for a \$500,000 INTERCAP loan. As of June 30, 2006 Dawson Community College had requested and received INTERCAP loan proceeds of \$500,000. This is a ten year loan with an adjustable interest rate. The average loan rate for the past ten years has been 4.160%. The interest rate as of June 30, 2006 was 4.75%. The loan will be paid from the \$7.00 per credit Student Building Fees.

In the winter of 2003, the College began the process of preparing a loan application for a \$400,000 Rural Economic Development Loan and Grant. This is a 20 year, zero interest loan. It will be serviced from the \$7.00 per credit increase in Student Building Fees. On September 10, 2004 the loan agreement and note was signed by the College and Mid-Rivers Cooperative.

Part of the financial package includes \$192,000 (60% of \$320,000) from the proceeds from the Harold Ullman Revocable Trust. The terms and conditions of the trust set aside 60% of the proceeds for building expansion projects. The Board earmarked the full 60% for this project.

In addition to the aforementioned funds, the Associated Student Body approved the use of \$758,791 in accumulated Student Building Fees. The Board also authorized the use of \$150,000 from the Incidental Fees Fund, \$100,000 from the Library Fee Fund, \$300,000 from one-time funding from the State Legislature, and \$85,000 from general fund budget savings. Donations, pledges and interest earnings are the final component of the \$6,980,891 funding package.

During the first bidding process the College became aware of the requirement that domestic water pressure would have to meet State regulations and that the existing water pressure was inadequate to service the planned expansion. The College approved construction of a water pressure booster station. This project is separate from the Facilities Expansion Project and had an estimated cost of construction of \$180,000. The College submitted and was granted an \$180,000 INTERCAP loan for the construction of

this project. This loan will be serviced from student fees. The actual cost of construction with change orders will likely be in the \$400,000 range. The College has requested and received approval for budget amendments for fiscal years 2005 and 2006 for greater than anticipated oil and gas severance taxes to help defray the increases. The remaining balance will be paid from other uncommitted institutional resources.

In the fall of 2002 the College initiated the Farm/Ranch Business Management program. This program is delivered on site with one-on-one instruction. In spite of opening only one of the five new sites planned for the fall of 2005, record enrollment was achieved. In 2006 three of the sites were temporally shut down. This action was due to a combination of events that include: Increases in tuition and fees, loss of personnel, and changes to the program model.

In the summer of 2005 the Board of Trustees approved the Ag Marketing and Financial Analysis program and the Web Development program. At the February 27, 2006 Board of Trustees meeting, approval was granted for the Engineering Technology program and the Music Technology program. All four of these programs are designed to develop a strong work force and contribute to the economy of the region.



CHMS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Legislative Audit Committee
Of the Montana State Legislature

We have audited the accompanying basic financial statements of Dawson Community College, Glendive, Montana, as of and for the years ended June 30, 2005 and 2006, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to obtain the audited financial statements supporting the financial activities of Dawson College Foundation, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the audited financial statements of Dawson College Foundation, or had we been able to satisfy ourselves as to those financial activities by other auditing procedures, the financial statements referred to above present fairly, in all material respects, the financial position of Dawson Community College, Glendive, Montana, as of June 30, 2005 and 2006, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The managements' discussion and analysis on pages vi - xiv is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Functional Classification of Operating Expenses on pages 19-20, the Schedule of Student Financial Aid Modified Statement of Cash Receipts and Disbursements on pages 21-22, the Schedule of Expenditures – Student Financial Assistance Programs on page 23, and the Schedule of Enrollment Statistics on page 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of Federal Awards on pages 25 – 26 are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in dark ink that reads "CHMS, PC". The signature is written in a cursive, flowing style. Below the signature is a horizontal line.

CHMS, P.C.
Certified Public Accountants

October 10, 2006

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
STATEMENT OF NET ASSETS
JUNE 30, 2005 AND 2006**

ASSETS	<u>2005</u>	<u>2006</u>
Current Assets		
Cash and Cash Equivalents - Note C	\$ 5,247,108	\$ 2,835,655
Taxes Receivable - Note A	76,879	40,576
Tuition Receivable	117,906	144,307
Grants Receivable - Note A	176,499	149,736
Student Loan Receivable	97,123	98,757
Accounts Receivable - Note A	195,386	265,141
Inventory - Note A	84,721	99,155
Total Current Assets	<u>5,995,622</u>	<u>3,633,327</u>
Noncurrent Assets		
Restricted Cash and Cash Equivalents - Note C	1,650,936	1,856,895
Capital Assets - Note D	10,670,328	14,527,763
Less: Accumulated Depreciation	<u>(4,335,761)</u>	<u>(4,545,682)</u>
Total Noncurrent Assets	<u>7,985,503</u>	<u>11,838,976</u>
Total Assets	<u>13,981,125</u>	<u>15,472,303</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	112,249	378,836
Accrued Payroll	65,214	2,806
Deferred Revenue - Grants	59,402	31,009
Room Deposits	10,237	9,487
Due to Student Organizations	23,857	12,203
Interest Payable	98,172	105,154
Compensated Absences Payable - Note E	16,928	16,709
Due to Other Funds	26,645	27,045
Current Portion of Long-Term Obligations - Note F	182,764	209,832
Total Current Liabilities	<u>595,468</u>	<u>793,081</u>
Noncurrent Liabilities		
Compensated Absences Payable - Note E	321,630	317,469
Noncurrent Portion of Long-Term Obligations - Note F	5,523,987	5,994,155
Total Noncurrent Liabilities	<u>5,845,617</u>	<u>6,311,624</u>
Total Liabilities	<u>6,441,085</u>	<u>7,104,705</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	627,816	3,778,094
Restricted for:		
Expendable:		
Student Loans	105,581	106,501
Debt Service	-	24,644
Scholarships, Research, Instruction, and Other	1,673,829	1,807,007
Unrestricted	<u>5,132,814</u>	<u>2,651,352</u>
Total Net Assets	<u>\$ 7,540,040</u>	<u>\$ 8,367,598</u>

See notes to the financial statements.

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2006**

REVENUES	<u>2005</u>	<u>2006</u>
Operating Revenues		
Tuition and Fees (net of scholarship allowance of \$255,595 and \$194,880, respectively) \$	1,280,103	\$ 943,619
Federal Grants and Contracts	1,369,244	1,446,601
State Grants and Contracts	37,326	38,028
Private and Local Grants and Contracts	484,067	443,153
Auxiliary Activities:		
Bookstore	170,343	219,400
Dormitory	234,292	245,975
Other Operating Revenues (Expenses)		<u>563,135</u>
Total Operating Revenues	<u>3,575,375</u>	<u>3,899,911</u>
EXPENSES		
Operating Expenses		
Salaries	2,402,002	2,691,429
Benefits	761,853	809,065
Travel	195,518	210,464
Supplies	182,925	235,220
Contracted Services	84,900	113,173
Postage	16,541	15,011
Rent and Lease	12,910	18,880
Repairs and Maintenance	265,491	140,654
Advertising	990	1,993
Telephone and Utilities	127,988	160,719
Student Support	6,707	5,084
Communications	41,648	32,791
Computer and Tech Fees	77,277	98,994
Scholarships and Grants	979,101	979,770
Equipment	108,458	83,055
Insurance	83,695	81,115
Indirect Costs	40,959	35,050
REC Complex	835	1,363
Items for Resale	111,621	112,305
Other Operating Expenses	444,967	453,806
Depreciation Expense	<u>228,139</u>	<u>209,921</u>
Total Operating Expenses	<u>6,174,525</u>	<u>6,489,862</u>
Operating Loss	<u>(2,599,150)</u>	<u>(2,589,951)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Income	109,307	122,897
State Appropriations	1,755,051	2,237,500
Local Appropriations	1,088,290	1,107,610
Realized and Unrealized Gains/Losses	108,971	156,508
Interest Payments	<u>(424,872)</u>	<u>(207,006)</u>
Total Nonoperating Revenues	<u>2,636,747</u>	<u>3,417,509</u>
DECREASE IN NET ASSETS	37,597	827,558
Net Assets, Beginning of Year	<u>7,502,443</u>	<u>7,540,040</u>
Net Assets, End of Year	<u>\$ 7,540,040</u>	<u>\$ 8,367,598</u>

See notes to the financial statements.

**DAWSON COMMUNITY COLLEGE
GLENDDIVE, MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2006**

	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	\$ 1,210,964	\$ 917,218
Grants and Contracts	1,957,161	1,926,152
Payments to Employees	(2,303,157)	(2,758,217)
Payments for Benefits	(761,853)	(809,065)
Payments to Suppliers	(1,241,043)	(927,915)
Payments for Utilities	(127,988)	(160,719)
Payments for Scholarships and Fellowships	(979,101)	(979,770)
Collection of Loans to Students	(3,704)	(1,634)
Auxiliary Enterprise Charges		
Bookstore	170,343	219,400
Dormitory	233,185	245,225
Other Receipts (Payments)	(478,068)	34,890
NET CASH USED BY OPERATING ACTIVITIES	(2,323,261)	(2,294,435)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	1,755,051	2,237,500
Local Appropriations	1,058,229	1,143,913
Student Organization Agency Transactions	(140)	(11,654)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	2,813,140	3,369,759
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Bond Issuance	4,430,000	680,000
Purchases of Capital Assets	(2,047,486)	(3,857,435)
Bond Premium	23,066	-
Bond Issuance Costs	(53,066)	-
Principal Paid on Capital Debt	(19,698)	(182,764)
Interest Paid on Capital Debt	(373,646)	(200,024)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	1,959,170	(3,560,223)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	109,307	122,897
Realized and Unrealized Gains/Losses	108,971	156,508
NET CASH PROVIDED BY INVESTING ACTIVITIES	218,278	279,405
Net Increase (Decrease) in Cash and Cash Equivalents	2,667,327	(2,205,494)
Cash and Cash Equivalents, Beginning of Year	4,230,717	6,898,044
Cash and Cash Equivalents, End of Year	<u>\$ 6,898,044</u>	<u>\$ 4,692,550</u>
Reconciliation to Statement of Net Assets		
Cash and Cash Equivalents	\$ 5,247,108	\$ 2,835,655
Restricted Cash and Cash Equivalents	<u>1,650,936</u>	<u>1,856,895</u>
Total Cash and Cash Equivalents	<u>\$ 6,898,044</u>	<u>\$ 4,692,550</u>
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (2,599,150)	\$ (2,589,951)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation Expense	228,139	209,921
Changes in Net Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(134,524)	(97,790)
(Increase) Decrease in Grants Receivable	22,352	26,763
(Increase) Decrease in Inventory	(6,266)	(14,434)
Increase (Decrease) in Accounts Payable	155,506	204,179
Increase (Decrease) in Deferred Grant Revenue	52,814	(28,393)
Increase (Decrease) in Room Deposits	(1,107)	(750)
Increase (Decrease) in Compensated Absences Payable	36,407	(4,380)
Increase (Decrease) in Due to Other Funds	26,645	400
Increase (Decrease) in Due to Other Governments	(104,077)	-
Net Cash Used By Operating Activities	<u>\$ (2,323,261)</u>	<u>\$ (2,294,435)</u>

See notes to the financial statements.

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Dawson Community College, a Community College District (the College), is presented to assist in understanding the College's financial statements. The financial statements and notes are representations of the College's management, which is responsible for their integrity and objectivity.

Reporting Entity

Dawson Community College is a community college district which has received full accreditation by the Northwest Association of Schools and Colleges. The College is managed by a Board of Trustees, each member of which is elected in district-wide elections. The college administration is appointed by and responsible to the Board of Trustees.

The County government of Dawson County provides substantial services to the College. Taxes are levied and collected by the County. Cash is maintained and invested by the County Treasurer. The County does not significantly influence the operations of the College; thus, the College is treated as a separate and independent unit of local government.

The College, for financial purposes, includes all funds, account groups, organizations and boards for which the College is financially accountable, and other organizations for which the nature and significance of the relationship are such that the exclusion would cause the College's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a majority of the governing body, and by the imposition of will or the potential for financial benefit or burden.

Financial Statements

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In June 1999, GASB unanimously approved Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities" amends Statement No. 34 to address the accounting and financial reporting issues related to public colleges and universities. Certain significant changes in the Statement include the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the College's overall financial position and results of operations.

A change in the fund-group financial statements to an entity-wide perspective.

Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. All significant inter-entity transactions have been eliminated upon consolidation.

**DAWSON COMMUNITY COLLEGE
GLENDDIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the College's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Grant revenues are reported only to the extent that they have been expended for their restricted purposes.

The College had the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents

The College considers all investments to be highly liquid, and, therefore, cash equivalents.

Investments

Investments are carried at cost, which approximates market value. Investments in the State Short-term Investment Pool (STIP) may include certain types of derivatives. A derivative is any "contract whose value depends on, or derives from, the value of an underlying asset, reference rate or index." The STIP portfolio includes asset-backed securities and variable-rate (floating rate) instruments. (See Note C on Investment Risk Categories.)

Accounts Receivable

Accounts receivable consists primarily of student tuition and fees.

Grants Receivable

Grants receivable are for expenditures made on grants for which reimbursement has not been received.

Inventories

Inventories consist mainly of bookstore supplies and are valued at cost on the first-in, first-out method

Use of Estimates

The preparation of these general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Noncurrent Assets

Cash that is externally restricted as to its use is classified as a noncurrent asset in the accompanying statement of net assets.

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc.). Capital assets are defined as assets with an individual initial cost of more than \$5,000 and an useful life in excess of one year.

All purchased fixed assets are valued at cost where historical records are available and at estimated historical costs where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Property, plant, and equipment is depreciated under the straight-line method over the following estimated useful lives:

	<u>Years</u>		<u>Years</u>
Buildings	50	Library	
Equipment	5 - 20	Resources	20

Donated Services

The value of donated services are not recognized, since the types of services rendered do not create or enhance the College's non-financial assets, nor do they require specialized skills.

Compensated Absences

As required by law, employees are allowed to accumulate earned but unused vacation and sick leave benefits. Unused vacation benefits are 100% payable upon termination. Unused sick leave benefits are payable at 25% of the unused portion upon termination. This liability has been reported as a liability and an expense in the financial statements.

**DAWSON COMMUNITY COLLEGE
GLENDDIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

The College's net assets are categorized as follows:

Invested in capital assets, net of related debt - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted, expendable - net assets whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

Restricted, nonexpendable - net assets subject to externally imposed stipulations that the College maintain those assets permanently.

Unrestricted - net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, the Board of Trustees, or the Board of Regents, or may otherwise be restricted by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for general operating purposes and capital asset acquisition.

Revenues

The College has classified its revenues as either operating or nonoperating according to the following criteria:

Operating Revenue - includes activities that have the characteristics of exchange transactions, including student tuition and fees, net of scholarship allowances and discounts; sales and services of auxiliary services; and most grants and contracts.

Nonoperating Revenue - nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting", and GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments". Types of revenue sources that fall into this classification are state appropriations and investment income.

Use of Restricted Revenues

When the College maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case by case basis. Restricted funds remain classified as restricted until they are expended.

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Change in Net Assets. Scholarship discounts and allowances are generated by the difference between the stated charge of goods and services provided by the College, and the amount that is paid by the students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

NOTE B - LOCAL APPROPRIATIONS

All property taxes are collected by the Treasurer of Dawson County, Montana. Property taxes attach as an enforceable lien on property as of January 1st and are levied on the 2nd Monday in August. They are due in two equal installments on November 30th, and May 31st, following the levy date.

The tax levies for the College for the years ended June 30, 2005 and 2006 were as follows:

	Number of Mills	
	Year ended 6/30/2005	Year ended 6/30/2006
General Levy	57.10	57.86
Debt Service Levy	22.47	20.78
Adult Education Levy	3.93	6.47
Retirement Fund Levy	15.82	19.70
Total	<u>99.32</u>	<u>104.81</u>

The value of one mill was \$12,848 for 2005 and \$12,668 for 2006.

NOTE C - CASH AND CASH EQUIVALENTS

Cash and investments as of June 30, 2005, consist of the following:

	College
Cash on Hand	\$ 150
Deposits with Financial Institutions	87,054
Time Certificate of Deposit with Financial Institution	40,863
Investments	1,520,580
Invested in the Dawson County Investment Pool	<u>5,249,397</u>
Total Cash and Investments	<u>\$ 6,898,044</u>

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE C - CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and investments as of June 30, 2006, consist of the following:

	<u>College</u>
Cash on Hand	\$ 150
Deposits with Financial Institutions	87,262
Time Certificate of Deposit with Financial Institution	41,497
Investments	1,676,093
Invested in the Dawson County Investment Pool	<u>2,887,548</u>
Total Cash and Investments	\$ <u>4,692,550</u>

The College follows the practice of pooling cash and investments of all funds with the Dawson County Treasurer, except for student loan fund deposits, agency funds, loan reserves, and Harold Ullman Funds, which are held in demand deposit and investment accounts with local financial institutions.

The College may invest in savings deposits, time deposits or repurchase agreements in financial institutions that are both located in Montana and insured by FDIC, FSLIC, or NCUA. The College may also invest in general obligations of the United States Government, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Mortgage Corporation, and Federal Farm Credit Bank, or a U.S. government security money market fund which holds eligible securities in its investment program, or in a unified investment program with the state, county treasurer, or any other political subdivision as long as investments are eligible investments.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investments, the greater the sensitivity of its fair value to changes in market interest rates.

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE C - CASH AND CASH EQUIVALENTS (CONTINUED)

Information about the sensitivity of the fair value of the College's investments to market interest rate fluctuations is provided by the following tables that show the maturity date of each investment.

	<u>6/30/05</u>	<u>Maturity Date</u>
Dawson County Investment Pool	\$ 5,249,397	1.34 years
Bonds	<u>367</u>	15.97 years
	<u>\$ 5,249,764</u>	
	<u>6/30/06</u>	<u>Maturity Date</u>
Dawson County Investment Pool	\$ 2,887,548	329 days
Bonds	<u>253</u>	14.97 years
	<u>\$ 2,887,801</u>	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Dawson County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

The College's rated debt instruments as of June 30, 2005 and 2006, were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

	2005 AAA	2006 AAA
Asset and Mortgage backed Securities	\$ <u>367</u>	\$ <u>253</u>

Concentration of Credit Risk

The investment policy of the College contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Montana Code Annotated. Investments in American Funds and Investment Company of America each represent 11% of the total College investments, and investments in Washington Mutual represent 12 % of the total College investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. A governmental entity's money is insured for each "public unit" based on how the account is titled at the financial institution. The Dawson County government is considered to have \$100,000 FDIC coverage for demand deposits and \$100,000 FDIC coverage for time and savings deposits in each bank in the state.

**DAWSON COMMUNITY COLLEGE
GLENDDIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE C - CASH AND CASH EQUIVALENTS (CONTINUED)

The College's deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2005 or 2006.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governmental investment pools (such as the Dawson County Investment Pool).

Investment in the Dawson County Investment Pool

The College participates in the Dawson County Investment Pool. Information pertaining to the County's investment pool can be obtained from the County's annual report. The investment pool is not registered with the Securities and Exchange Commission. The pool is managed by the Dawson County Treasurer, who reports to the Dawson County Commissioners. The pool unit is fixed at \$1 per share for purchases and redemptions. Participants may buy and sell fractional shares.

The county investment pool has money invested in the State Short-Term Investment Pool (S.T.I.P.) which includes asset-backed and variable-rate securities. Asset-backed securities have less credit risk than securities not backed by pledged assets. Market risk for asset-backed securities is the same as for similar non asset-backed securities. Variable-rate securities have credit risk identical to similar fixed-rate securities; the related market risk is more sensitive to changes in interest rates. However, their market risk may be less volatile than fixed-rate securities because their value will usually remain at or near par value as a result of their interest rates being periodically reset to maintain a current market yield. The Montana Board of Investments reported that they were not aware of any legal risks associated with any of the S.T.I.P. investments, as of June 30, 2006.

Foreign Currency Risk

The College does not have a formal policy to limit foreign currency risk and does not have any foreign currency risk as the College does not own any foreign currency.

Restricted Cash and Investments

Restricted cash and investments consisted of the following at June 30:

	<u>6/30/05</u>	<u>6/30/06</u>
Restricted for Dorm Furniture Replacement	\$ 27,878	\$ 28,351
Donor Restricted	1,549,811	1,706,319
Stockman Bank Loan Reserve	32,384	80,728
USDA Loan Reserve	<u>40,863</u>	<u>41,497</u>
Total Restricted Cash and Investments	<u>\$ 1,650,936</u>	<u>\$ 1,856,895</u>

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE D - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2005, were as follows:

	Balance 6/30/2004	Additions/ Adjustments	Deletions Reclassifications	Balance 6/30/2005
Land	\$ 137,518	\$ -	\$ -	\$ 137,518
Buildings	5,716,005	-	-	5,716,005
Improvements	524,188	-	-	524,188
Construction in Progress	-	1,973,282	-	1,973,282
Equipment	1,874,656	97,740	33,549	1,938,847
Library Inventory	370,475	10,926	913	380,488
Total	<u>8,622,842</u>	<u>2,081,948</u>	<u>34,462</u>	<u>10,670,328</u>
Less Accumulated Depreciation for:				
Buildings	\$ 2,027,918	\$ 111,338	\$ -	\$ 2,139,256
Improvements	469,758	19,651	156,194	333,215
Equipment	1,385,931	242,383	-	1,628,314
Library Inventory	224,015	18,524	7,563	234,976
Total Accumulated Depreciation	<u>4,107,622</u>	<u>391,896</u>	<u>163,757</u>	<u>4,335,761</u>
Capital Assets, Net	<u>\$ 4,515,220</u>	<u>\$ 1,690,052</u>	<u>\$ (129,295)</u>	<u>\$ 6,334,567</u>

Capital asset balances and activity for the year ended June 30, 2006, were as follows:

	Balance 6/30/2005	Additions/ Adjustments	Deletions Reclassifications	Balance 6/30/2006
Land	\$ 137,518	\$ -	\$ -	\$ 137,518
Buildings	5,716,005	5,650,135	-	11,366,140
Improvements	524,188	-	-	524,188
Construction in Progress	1,973,282	3,857,435	5,650,135	180,582
Equipment	1,938,847	-	-	1,938,847
Library inventory	380,488	-	-	380,488
Total	<u>10,670,328</u>	<u>9,507,570</u>	<u>5,650,135</u>	<u>14,527,763</u>
Less Accumulated Depreciation for:				
Buildings	2,139,256	111,338	-	2,250,594
Improvements	333,215	17,864	-	351,079
Equipment	1,628,314	62,195	-	1,690,509
Library Inventory	234,976	18,524	-	253,500
Total Accumulated Depreciation	<u>4,335,761</u>	<u>209,921</u>		<u>4,545,682</u>
Capital Assets, Net	<u>\$ 6,334,567</u>	<u>\$ 9,297,649</u>	<u>\$ 5,650,135</u>	<u>\$ 9,982,081</u>

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE E - COMPENSATED ABSENCES PAYABLE

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, were as follows:

June 30, 2005:	Balance 6/30/2004	Increase (Decrease)	Balance 6/30/2005
Vacation and Sick Leave	\$ 302,151	\$ 36,407	\$ 338,558
June 30, 2006:	Balance 6/30/2005	Increase (Decrease)	Balance 6/30/2006
Vacation and Sick Leave	\$ 338,558	\$ (4,380)	\$ 334,178

NOTE F - LONG-TERM OBLIGATIONS

Long-term obligations of the following obligations described below. Changes in long-term obligations during 2005 were as follows:

	Balance 6/30/2004	Debt Issued	Principal Payment	Balance 6/30/2005	Current Portion
Stockman Bank	\$ 654,713	\$ -	\$ 12,545	\$ 642,168	\$ 15,614
USDA Rural Development	671,736	-	7,153	664,583	7,150
General Obligation Bonds	-	4,000,000	-	4,000,000	160,000
Mid Rivers Communications	-	400,000	-	400,000	-
	<u>\$ 1,326,449</u>	<u>\$ 4,400,000</u>	<u>\$ 19,698</u>	<u>\$ 5,706,751</u>	<u>\$ 182,764</u>

Changes in long-term obligations during 2006 were as follows:

	Balance 6/30/05	Debt Issued	Principal Payment	Balance 6/30/2006	Current Portion
Stockman Bank	\$ 642,168	\$ -	\$ 15,614	\$ 626,554	\$ 21,439
USDA Rural Development	664,583	-	7,150	657,433	8,907
General Obligation Bonds	4,000,000	-	160,000	3,840,000	135,000
Mid Rivers Communications	400,000	-	-	400,000	16,667
Montana Board of Investments - #1	-	180,000	-	180,000	8,096
Montana Board of Investments - #2	-	500,000	-	500,000	19,723
	<u>\$ 5,706,751</u>	<u>\$ 680,000</u>	<u>\$ 182,764</u>	<u>\$ 6,203,987</u>	<u>\$ 209,832</u>

The note payable to Stockman Bank of \$700,000 originated on February 21, 2000. Payments of \$65,298 including both principal and interest, are due on February 10 each year. The note will mature in 2025. Interest is payable at 7.97% per annum, with the interest rate to be recalculated every five years. The interest rate will not fall below 7% nor rise higher than 11.5%. This note is secured by the dormitory and its contents. This note is secured by deeds of trust on real estate and improvements of the student dormitories and adjacent parking area. The note is also secured by any furnitures, fixtures, and equipment located in the dormitories, along with an assignment of rental revenue from all of the student dormitories owned by the College.

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE F - LONG-TERM OBLIGATIONS (CONTINUED)

The note payable to the United States Department of Agriculture - Rural Development originated on February 21, 2000, in the amount of \$700,000. Principal and interest payments of \$39,410 are due on February 21 each year for 40 years. Interest is payable at 4.75% per annum. This note is secured by an assignment of rental revenues from all existing and hereinafter acquired student dormitory facilities owned by the College.

On September 1, 2004, Dawson Community College issued general obligation bonds at a purchase price of \$4,000,000 and an interest rate of 2.9%-4.35% to pay a portion of the costs of designing, constructing, furnishing and equipping a library and learning center expansion project and for the construction of a new performing arts center/gymnasium. The bonds bear interest payable semiannually on January 1 and July 1 each year, commencing January 1, 2005. The bonds mature beginning July 1, 2005 through 2022.

The note payable to Mid Rivers Communications of \$400,000 originated on October 25, 2004. Principal payments of \$4,167 are due monthly. The note will mature in 2014. This is an interest-free loan and is secured by the aforementioned construction project.

The Montana Board of Investments note payable #1 of \$180,000 originated on May 6, 2005. Payments of principal and interest are due semiannually on February 15 and August 15. Payments consist of a variable principal portion and interest computed at 4.75%. The loan is secured by the aforementioned construction

The Montana Board of Investments note payable #2 of \$500,000 originated on May 6, 2005. Payments of principal and interest are due semiannually on February 15 and August 15. Payments consist of a variable principal portion and interest computed at 4.75%. The loan is secured by the aforementioned construction

Mortgages payable maturities are as follows:

Year	Principal	Interest
2007	\$ 209,832	\$ 222,126
2008	279,458	217,013
2009	289,253	210,272
2010	304,318	203,233
2011	314,664	195,715
2012 - 2016	1,685,456	851,992
2017 - 2021	1,460,410	583,740
2022 - 2026	1,264,942	239,474
2027 - 2031	104,036	93,014
2032 - 2036	131,234	65,816
2037 - 2041	160,384	23,094
Total	\$ <u>6,203,987</u>	\$ <u>2,905,489</u>

NOTE G - RETIREMENT PLANS

The College participates in two state-wide, multiple employer, cost-sharing retirement plans which cover all employees, except some substitute and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers certified teaching employees, and the Public Employee Retirement System (PERS) covers non-teaching employees. The plans are established by State law and are administered by the Department of Administration of the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

**DAWSON COMMUNITY COLLEGE
GLENDAVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE G - RETIREMENT PLANS (CONTINUED)

Both plans issue publicly available annual reports that include financial statements and required supplemental information for the plans. The reports for the Teachers' Retirement System can be obtained at P.O. Box 200139, 1500 Sixth Ave., Helena, MT 59620-0139. The reports for the Public Employees Retirement System can be obtained at P.O. Box 200131, 1712 Ninth Ave., Helena, MT 59620-0131. The financial statements for the Public Employees Retirement System include activity for a defined benefit and a defined contribution retirement plan. The defined contribution plan is available to all active members starting July 1, 2002. The assets of one retirement plan cannot be commingled with those of another plan.

Contribution rates, expressed as a percentage of covered payroll, which are determined by State law, were as follows:

June 30, 2005 and June 30, 2006:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
TRS	7.47%	7.15%	14.62%
PERS	6.80%	6.90%	13.70%

The amounts contributed by both the employees and the College for the prior three years ended June 30, were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
TRS	\$ 300,100	\$ 234,570	\$ 199,288
PERS	80,856	75,244	79,960
Total	<u>\$ 380,956</u>	<u>\$ 309,814</u>	<u>\$ 279,248</u>

The State of Montana contributes .10% of the employees' wages covered by PERS, and .11% of the employees' wages covered by TRS, which are considered on-behalf payments. The College did not record this contribution in its financial statements, as required by generally accepted accounting principles.

NOTE H - RISK MANAGEMENT

The College faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability i.e. errors and omissions, d) environmental damage, and e) workers' compensation, i.e. employee injuries. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts, and professional liabilities. Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for property and content coverage where the guaranteed values have been increased to approximate replacement cost of the assets. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2006**

NOTE I - COMPONENT UNIT

The Dawson College Foundation is a nonprofit, tax-exempt organization operating exclusively for the purpose of encouraging, promoting, and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the College. Although the College may not control the timing or amount of receipts from this entity, the majority of the revenues or incomes thereon that the entity holds and invests are restricted by donors to the activities of the College.

The College implemented GASB 39 - Determining Whether Certain Organizations Are Component Units - during the fiscal year ended June 30, 2004. As noted in the independent auditor's report, the financial statements information of the Dawson College Foundation was not audited.

The Dawson College Foundation donates money to the College for operating expenses of the College, at the discretion of the Board of Trustees of the Dawson College Foundation. The Foundation donated \$16,336 and \$30,997 during the fiscal years ended June 30, 2005 and 2006, respectively, for scholarships and miscellaneous expenses. Also during the fiscal year ended June 30, 2006, the Foundation donated \$249,978 for the facilities expansion project.

NOTE J - COMMITMENTS

The College issued general obligation bonds as detailed in Note F, in part for paying the costs of designing, constructing, furnishing, and equipping a library expansion project on the College campus. As of June 30, 2006, the College estimates an additional \$834,000 will be spent to complete this project.

SUPPLEMENTARY INFORMATION

**DAWSON COMMUNITY COLLEGE
GLENDDIVE, MONTANA
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005**

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Depreciation	Totals
Salaries	\$ 1,070,425	\$ 330,312	\$ 837,239	\$ -	\$ -	\$ 122,395	\$ 41,631	\$ -	\$ 2,402,002
Benefits	156,707	64,378	240,224	257,836	-	23,482	19,226	-	761,853
Travel	18,281	21,899	154,069	-	-	1,269	-	-	195,518
Supplies	47,846	46,805	73,598	-	-	14,588	88	-	182,925
Contracted Services	9,223	31,764	43,913	-	-	-	-	-	84,900
Postage	2,053	2,053	12,435	-	-	-	-	-	16,541
Rent and Lease	8,610	4,300	-	-	-	-	-	-	12,910
Repairs and Maintenance	-	30,155	6,001	-	-	203,385	25,950	-	265,491
Advertising	-	990	-	-	-	-	-	-	990
Utilities	-	363	-	-	-	86,108	41,517	-	127,988
Student Support	-	-	6,707	-	-	-	-	-	6,707
Communications	15,550	-	14,353	-	-	-	11,745	-	41,648
Computer and Tech Fees	19,959	57,318	-	-	-	-	-	-	77,277
Scholarships and Grants	-	-	31,933	-	947,168	-	-	-	979,101
Equipment	-	12,063	85,576	-	-	10,796	23	-	108,458
Insurance	-	-	56,412	-	-	27,283	-	-	83,695
Indirect Costs	-	19,328	21,631	-	-	-	-	-	40,959
REC Complex	-	-	835	-	-	-	-	-	835
Items for Resale	-	-	-	-	-	-	111,621	-	111,621
Other	84,457	313,221	(10,040)	-	-	9,000	48,329	-	444,967
Depreciation Expense	-	-	-	-	-	-	-	228,139	228,139
Totals	\$ <u>1,433,111</u>	\$ <u>934,949</u>	\$ <u>1,574,886</u>	\$ <u>257,836</u>	\$ <u>947,168</u>	\$ <u>498,306</u>	\$ <u>300,130</u>	\$ <u>228,139</u>	\$ <u>6,174,525</u>

**DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006**

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Depreciation	Totals
Salaries	\$ 1,291,048	\$ 347,815	\$ 849,577	\$ -	\$ -	\$ 134,919	\$ 68,070	\$ -	\$ 2,691,429
Benefits	212,042	63,063	172,341	308,449	-	23,161	30,009	-	809,065
Travel	30,636	32,636	145,745	-	-	1,447	-	-	210,464
Supplies	57,066	57,804	99,018	-	-	19,362	1,970	-	235,220
Contracted Services	20,980	35,699	56,494	-	-	-	-	-	113,173
Postage	2,053	2,053	10,905	-	-	-	-	-	15,011
Rent and Lease	10,380	8,500	-	-	-	-	-	-	18,880
Repairs and Maintenance	-	27,902	7,288	-	-	69,332	36,132	-	140,654
Advertising	-	1,766	227	-	-	-	-	-	1,993
Utilities	-	76	-	-	-	116,870	43,773	-	160,719
Student Support	-	-	5,084	-	-	-	-	-	5,084
Communications	11,561	-	9,276	-	-	175	11,779	-	32,791
Computer and Tech Fees	30,705	68,289	-	-	-	-	-	-	98,994
Scholarships and Grants	-	-	22,237	-	957,533	-	-	-	979,770
Equipment	1,737	15,355	65,262	-	-	400	301	-	83,055
Insurance	-	-	80,530	-	-	585	-	-	81,115
Indirect Costs	-	16,235	18,815	-	-	-	-	-	35,050
REC Complex	-	-	1,363	-	-	-	-	-	1,363
Items for Resale	-	-	-	-	-	-	112,305	-	112,305
Other	59,698	135,790	207,914	-	(16,133)	6,840	59,697	-	453,806
Depreciation Expense	-	-	-	-	-	-	-	209,921	209,921
Totals	\$ 1,727,906	\$ 812,983	\$ 1,752,076	\$ 308,449	\$ 941,400	\$ 373,091	\$ 364,036	\$ 209,921	\$ 6,489,862

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005**

**STUDENT FINANCIAL AID MODIFIED STATEMENT
OF CASH RECEIPTS AND DISBURSEMENTS**

	<u>PELL</u>	<u>PERKINS</u>	<u>CWS</u>	<u>SEOG</u>
Beginning Cash Balance	\$ 3,832	\$ 15,644	\$ 2,266	\$ 259
Additions:				
Federal Advances	712,219	-	18,332	34,935
State Matching Funds	-	-	-	11,645
Institutional Matching Funds		-	-	-
Transfer from College Work Study				
Interest Collected	-	872	-	-
Interest Investments	-	5	-	-
Principal Collected	<u> </u>	<u>10,042</u>	<u> </u>	<u> </u>
Total Additions	<u>712,219</u>	<u>10,919</u>	<u>18,332</u>	<u>46,580</u>
Deductions:				
Distribution to Students	713,299	14,416	19,179	46,839
Excess Cash Paid Back	-	-	-	-
Transfer to SEOG	-	-	1,034	-
Administrative Expenses	<u>-</u>	<u>3,690</u>	<u>63</u>	<u>-</u>
Total Deductions	<u>713,299</u>	<u>18,106</u>	<u>20,276</u>	<u>46,839</u>
Net Change in Cash	<u>(1,080)</u>	<u>(7,187)</u>	<u>(1,944)</u>	<u>(259)</u>
Ending Cash Balance	<u>\$ 2,752</u>	<u>\$ 8,457</u>	<u>\$ 322</u>	<u>\$</u>

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006**

**STUDENT FINANCIAL AID MODIFIED STATEMENT
OF CASH RECEIPTS AND DISBURSEMENTS**

	PELL	PERKINS	CWS	SEOG
Beginning Cash Balance	\$ 2,752	\$ 8,457	\$ 322	\$ -
Additions:				
Federal Advances	686,623	-	18,836	34,935
Transfer from College Work Study	-	-	-	400
State Matching Funds	-	-	-	11,645
Institution Matching Funds		1,302	-	-
Interest Collected	-	772	-	-
Interest Investments	-	7	-	-
Principal Collected	-	10,750	-	-
Total Additions	<u>686,623</u>	<u>12,831</u>	<u>18,836</u>	<u>46,980</u>
Deductions:				
Distribution to Students	686,848	13,685	16,552	46,980
Transfer to SEOG	-	-	400	-
Administrative Expenses	-	(141)	-	-
Total Deductions	<u>686,848</u>	<u>13,544</u>	<u>16,952</u>	<u>46,980</u>
Net Change in Cash	<u>(225)</u>	<u>(713)</u>	<u>1,884</u>	
Ending Cash Balance	<u>\$ 2,527</u>	<u>\$ 7,744</u>	<u>\$ 2,206</u>	<u>\$ -</u>

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2005 AND 2006**

**SCHEDULE OF EXPENDITURES
STUDENT FINANCIAL ASSISTANCE PROGRAMS**

	<u>2005</u>	<u>2006</u>
Perkins Loan Program		
Student Loan Advances	\$ 14,416	\$ 13,685
Administrative Cost	3,690	(141)
	<u>\$ 18,106</u>	<u>\$ 13,544</u>
College Work Study		
Wages	<u>\$ 19,179</u>	<u>\$ 16,552</u>
Supplemental Education Opportunity Grant Program		
Student Grants	<u>\$ 46,839</u>	<u>\$ 46,980</u>
Pell Grant Program		
Student Grants	<u>\$ 713,299</u>	<u>\$ 686,848</u>

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2005 AND 2006**

SCHEDULE OF ENROLLMENT STATISTICS

<u>Semester</u>	Third Week Report			<u>Total</u>
	<u>Resident</u>	<u>WUE</u>	<u>Nonresident</u>	
Summer 2004	49.17	0.40	1.36	50.93
Fall 2004**	413.20	33.20	18.20	464.60
Spring 2005**	421.03	42.13	15.87	479.03
Summer 2005	54.83	1.33	0.27	56.43
Fall 2005**	403.90	34.27	17.93	456.10
Spring 2006**	426.10	41.03	20.00	487.13

** Totals include late starting classes allowed
for full-time equivalent calculations.

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expended</u>
MAJOR PROGRAMS:			
<u>U.S. Department of Education</u>			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007	N/A	\$ 34,935
College Work Study	84.033	N/A	19,179
* Federal Family Education Loans	84.032	N/A	429,144
Pell Grant Program	84.063	N/A	712,219
Total Student Financial Aid Cluster			<u>1,195,477</u>
Student Support Services	84.042	P042A010495-04	<u>257,939</u>
Total U.S. Department of Education Major Programs			<u>1,453,416</u>
NON-MAJOR PROGRAMS:			
<u>U.S. Department of Education</u>			
Gaining Early Awareness and Readiness For Undergraduate Programs	84.334	N/A	<u>20,266</u>
Passed-Through Office of the Commissioner of Higher Education:			
Adult Basic and Literacy Education	84.002	58-6502-56-02BG	<u>48,635</u>
Vocational Education	84.048A	DCC-LAX01	<u>75,508</u>
Tech Prep	84.243	ETP05	<u>87,691</u>
Passed-Through Montana Office of Public Instruction:			
Campus Child Care	84.335	P335A0200089-04	<u>18,642</u>
Health Occupations	17.267	58-6502-55-05	<u>4,032</u>
Total U.S. Department of Education Non-Major Programs			<u>254,774</u>
<u>U.S. Department of Health & Human Services</u>			
Passed-Through Montanan Department of Health and Human Services			
Best Beginnings -Higher Ed.	93.575	0502HIED0004	31,872
Best Beginnings -Higher Ed.	93.575	0402HIED0004	32,639
ECHO-DPHHS	93.575	0502SPTG0032	8,729
Best Beginnings-Mentoring	93.575	0402MENT0003	16,958
Subtotal CFDA #93.575			<u>90,198</u>
<u>U.S. Department of Treasury</u>			
Passed Through State of Montana			
Job Growth Tax Relief	21.XXX	N/A	<u>81,020</u>
TOTAL FOR ALL FEDERAL AWARDS PROGRAMS			\$ <u>1,879,408</u>

* This program's activity is not reflected in the financial statements of this entity.

**DAWSON COMMUNITY COLLEGE
GLEN DIVE, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expended</u>
MAJOR PROGRAMS:			
<u>U.S. Department of Education</u>			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007	N/A	\$ 34,935
College Work Study	84.033	N/A	16,952
* Federal Family Education Loans	84.032	N/A	475,804
Pell Grant Program	84.063	N/A	690,546
Total Student Financial Aid Cluster			<u>1,218,237</u>
Student Support Services	84.042	P042A010495-04	<u>267,552</u>
Total U.S. Department of Education Major Programs			<u>1,485,789</u>
NON-MAJOR PROGRAMS:			
<u>U.S. Department of Education</u>			
Gaining Early Awareness and Readiness For Undergraduate Programs	84.334	N/A	<u>21,479</u>
Passed-Through Office of the Commissioner of Higher Education:			
Adult Basic and Literacy Education	84.002	58-6502-56-06BG	<u>47,635</u>
Vocational Education	84.048A	DCC-LAX01	<u>87,055</u>
Tech Prep	84.243	ETP06	<u>96,989</u>
Passed-Through Montana Office of Public Instruction:			
Campus Child Care	84.335	P335A0200089-05	<u>18,483</u>
Health Occupations	17.267	58-6502-55-05	<u>18,277</u>
Total U.S. Department of Education Non-Major Programs			<u>289,918</u>
<u>U.S. Department of Health & Human Services</u>			
Passed-Through Montanan Department of Health and Human Services			
Best Beginnings -Higher Ed.	93.575	0502HIED0004	37,666
Best Beginnings -Higher Ed.	93.575	0602HIED0004	39,692
ECHO-DPHHS	93.575	0502SPTG0032	9,635
ECHO-DPHHS	93.575	0602SPTG0034	15,000
Best Beginnings-Mentoring	93.575	0602MENT0012	15,112
Best Beginnings-Mentoring	93.575	0502MENT0011	29,593
Subtotal CFDA #93.575			<u>146,698</u>
TOTAL FOR ALL FEDERAL AWARDS PROGRAMS			<u>\$ 1,922,405</u>

* This program's activity is not reflected in the financial statements of this entity.



CHMS, P.C.
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**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Legislative Audit Committee
of the Montana State Legislature

We have audited the basic financial statements of Dawson Community College as of and for the years ended June 30, 2005 and 2006, as listed in the table of contents and have issued our report thereon dated October 10, 2006. Our report was modified because the component unit Dawson College Foundation's financial statements were not audited. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dawson Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Dawson Community College's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs on pages 31-32 as finding #06-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we do not believe that the reportable condition described in the accompanying schedule of findings and questioned costs on pages 31-32 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dawson Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Legislative Audit Committee of the Montana State Legislature, Dawson Community College's board of trustees and management, federal agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

CHMS, PC

CHMS, P.C.
Certified Public Accountants

October 10, 2006



CHMS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Legislative Audit Committee
of the Montana State Legislature

Compliance

We have audited the compliance of Dawson Community College with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. Dawson Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings on pages 31 – 32. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Dawson Community College's management. Our responsibility is to express an opinion on Dawson Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dawson Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Dawson Community College's compliance with those requirements.

In our opinion, Dawson Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of Dawson Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Dawson Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Legislative Audit Committee of the Montana State Legislature, Dawson Community College's board of trustees and management, federal agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.


CHMS, P.C.
Certified Public Accountants

October 10, 2006

**DAWSON COMMUNITY COLLEGE
SCHEDULE OF FINDINGS
YEARS ENDED JUNE 30, 2005 AND 2006**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Qualified

Internal control over financial reporting:

Material weakness identified? No

Reportable conditions identified not considered
to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness identified? No

Reportable conditions identified not considered
to be material weaknesses? No

Type of auditor’s report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required to be reported
in accordance with Circular A-133, Section .510(a)? No

Identification of major programs:

<u>CFDA Number</u>	<u>Award Year</u>	<u>Name of Federal Program</u>
84.033, 84.007, 84.032 & 84.063	04-05 & 05-06	Student Financial Aid Cluster
84.042	04-05 & 05-06	TRIO Student Support Services

Dollar threshold used to distinguish between
Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

**DAWSON COMMUNITY COLLEGE
SCHEDULE OF FINDINGS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2006**

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING #06-01 – Capitalization Policy

The College does not follow a formal capitalization policy for fixed asset acquisitions. Formalizing the policy will create more consistent accounting treatment for purchases of fixed assets.

Recommendation

We suggest that the College review and update its fixed assets capitalization policy to more effectively control and account for the College's property and equipment. To accomplish this goal, we suggest the following:

- a. Revise the minimum dollar amount for capitalization within the various property accounts.
- b. Prepare written guidelines for proper account classification of all routine fixed asset additions.
- c. Formalize the policy to differentiate between maintenance and repair items and long-term improvements.
- d. Review the detail listing of capitalized fixed assets with regard to the updated capitalization policy, and remove all previously capitalized assets not meeting the capitalization threshold from the detail asset listing and the capital asset accounts in the College general ledger.

PRIOR YEARS' RECOMMENDATIONS

A summary of the recommendations from fiscal years June 30, 2003 and 2004 is as follows:

<u>Finding</u>	<u>Status</u>
Finding #04-01 – Cash Reconciliations	Implemented
Finding #04-02 – Capitalization Policy	Not Implemented – See Finding #06-01
Finding #04-03 – Operating Budget	Implemented

SECTION III – FEDERAL AWARD FINDINGS

NONE

December 6, 2006

Tara Hill
P O BOX 1067
104 Second Avenue SW
Sidney MT 59270

Dear Ms. Hill:

The following is our response to the recommendation made in the 2005-2006 audit report for Dawson Community College.

Finding #06-01 – Capitalization Policy

The College does not follow a formal capitalization policy for fixed asset acquisitions. Formalizing the policy will create more consistent accounting treatment for purchases of fixed assets.

Recommendation

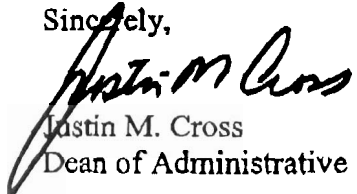
We suggest that the College review and update its fixed assets capitalization policy to more effectively control and account for the College's property and equipment. To accomplish this goal, we suggest the following:

- a. Revise the minimum dollar amount for capitalization within the various property accounts.
- b. Prepare written guidelines for proper account classification of all routine fixed asset additions.
- c. Formalize the policy to differentiate between maintenance and repair items and long-term improvements.
- d. Review the detail listing of capitalization policy, and remove all previously capitalized assets not meeting the capitalization threshold from the detailed asset listing and the capital asset accounts in the College general ledger.

Response

Concur, the College has implemented the aforementioned auditor's recommendations. The mechanics of the capitalization policy were implemented prior to June 30, 2006. The actual written document detailing the fixed assets capitalization policy was completed and formalized after June 30, 2006 but prior to the completion of the audit.

Sincerely,



Justin M. Cross
Dean of Administrative Services